Notes from the Ag and Environmental Committee meeting
Monday, November 19, 2012
Informal meeting – No quorum present

The meeting was posted for 2:00 p.m., Monday, November 19, 2012

Commissioners present on call:
Alan Marble
Craig Van Matre
Mike Wood

Others identified as participating on call:
Doyle Childers
Steve Shiery (Oversight)
Jason Zamkus, DED
Sallie Hemenway, DED
Tony Stafford, Dept of Ag.

Noting a quorum not present, Chairman Marble suggested the move forward with discussion and requested that notes be taken.

Prior to the call, Chairman Marble requested that a recap of recommendations be circulated to the Committee members:

REVIEW OF 2010 RECOMMENDATIONS

Family Farm Breeding Livestock Program

The Family Farm Breeding Livestock Loan Program is intended to promote family farms by allowing a tax credit for lenders in lieu of the first year interest paid on breeding livestock loans made to small farmers. In Fiscal Year 2009, $135,281 in credits was authorized, $135,281 was issued, and $88,137 was redeemed. The credit is not refundable, but may be carried forward by the lender for up to 3 years. The credit may be assigned.

The Commission is concerned that this credit, as designed, provides the unintended consequence of encouraging a farmer to borrow more and at higher rates than otherwise might be the case. In other words, the credit's benefit is maximized if the loan is for the full cap amount and at as high of an interest rate as the lender believes will be approved by the Missouri Agricultural and Small Business Development Authority (which administers this program). It also perhaps incentivizes the lender and farmer to "collude" by making the ostensible interest rate in the first year of the loan to be as high as possible and thereafter reduce that rate. However, the program is limited to a maximum of $300,000 per fiscal year (Section 348.505.2).

The apparent purpose of this credit is to encourage farmers to acquire breeding livestock. It does not seem obvious or relevant to the Commission why this goal should be related to the amount borrowed by a farmer.

The Commission recommends that this credit be restructured. The Commission suggests that the credit be related to the purchase price of the breeding livestock. Based on all tax credits issued since the program started (August 2007 – present), the actual amount of tax credits issued would have been approximately 7.0% (6.99% rounded up) of the total qualifying purchase price. Thus the Commission believes it is reasonable to assume that the same cost to the state and the goals of this credit could be more easily accomplished if the farmer receives the credit, and the credit is limited to 7.0% of the total qualifying purchase price of the eligible breeding livestock, subject to the statute's existing limits, i.e., the total qualifying purchase price is the lesser of the actual purchase price of eligible livestock or $75,000 for Beef and Dairy, $30,000 for Sheep and Goats, and $35,000 for Swine.

Wine and Grape Production Tax Credit

The Wine and Grape Production Tax Credit Program is intended to promote wine production and sales in Missouri. In Fiscal Year 2009, $252,857 in credits was authorized, $252,857 was issued, and $153,820 was redeemed.

The Commission recommends that the Wine and Grape Production Tax Credit be terminated during the 2011 legislative session because the credit has outlived its usefulness and does not create a benefit that is justifiable in relation to its cost to the State of Missouri. Based on the average of authorizations in Fiscal Year 2007, 2008, and 2009, elimination of the Wine and Grape Production Tax Credit could result in an estimated savings to the State of $183,495 annually.

Qualified Beef Tax Credit

The Qualified Beef Tax Credit Program is intended to promote the beef production and processing industry in Missouri. In Fiscal Year 2010, $43,028 in credits were authorized and issued. The program has a $3 million annual cap.

The Commission recommends that the Qualified Beef Tax Credit be modified during the 2011 legislative session to sunset on December 31, 2013 and that, prior to reauthorization, the General Assembly fully evaluate this relatively new program to determine the relationship of the credit to its goal of promoting beef production and processing in the State of Missouri.

Charcoal Producers Tax Credit

The Charcoal Producers Tax Credit Program is intended to promote the charcoal industry in Missouri by helping to offset the cost incurred by charcoal producers to purchase and install pollution control equipment. In Fiscal Year 2009, no credits were authorized or issued, although $134,663 in tax credits issued in prior years were redeemed. No new tax credits may be authorized under this program, and any credits previously issued must be redeemed by no later than the end of 2012.

The Commission recommends that the Charcoal Producers Tax Credit not be reauthorized as it has outlived its usefulness.

Alternative Fuel Stations Tax Credit

The Alternative Fuel Stations Tax Credit Program is intended to promote the construction of certain alternative fuel infrastructure in Missouri. Enacted in 2008, tax credits have yet to be issued under this program.

The Commission recommends that if the Alternative Fuel Infrastructure Tax Credit is reauthorized during the 2011 legislative session (currently set to sunset after tax year 2012), the General Assembly should consider expanding its applicability to include electric vehicle infrastructure and should continue the annual cap of $1 million to ensure budget predictability.

Wood Energy Tax Credit

The Wood Energy Tax Credit Program is intended to promote the use of processed wood residue and its byproducts in the production of charcoal and other wood products. In Fiscal Year 2009, $3,741,073 in credits was authorized, $3,741,073 was issued, and $4,576,446 was redeemed.

The Commission recommends that the Wood Energy Tax Credit be terminated during the 2011 legislative session (rather than waiting for it to sunset in 2013) because the credit has outlived its usefulness and its costs outweigh its benefits to the State of Missouri. Based on the average of authorizations in Fiscal Years 2007, 2008, and 2009, elimination of the Wood Energy Tax Credit could result in an estimated savings to the State of $3,442,431 annually.

Agriculture Product Utilization Contributor/ New Generation Cooperative Incentive
The Agriculture Product Utilization Contributor Tax Credit Program is intended to promote agricultural business concepts through the funding of financial or technical assistance in the form of value-added grants, loans, equity investments, or guaranteed loans. The New Generation Cooperative Incentive Tax Credit Program is intended to induce private investment in entities that process Missouri agricultural commodities and agricultural products into value added goods, benefit Missouri's agricultural products, and result in job creation. The two programs share a $6 million annual cap, with credits issued first to satisfy all requests for New Generation Cooperative Incentive tax credits and any remaining cap space available for Agriculture Product Utilization Contributor Tax Credits. In Fiscal Years 2007, 2008, and 2009 all $6 million of the annual cap was authorized and issued as New Generation Cooperative Incentive tax credits.
The Commission recommends that the Agricultural Product Utilization Contributor and the New Generation Cooperative Incentive Tax Credit Programs be combined into one program with an annual cap of $6 million, with discretion to the Missouri Agriculture and Small Business Development Authority to allocate credits under the cap to projects eligible under either former program that provide the greatest return on investment to the State of Missouri, including by providing the least amount of state funding necessary to evaluate the feasibility of the project. In addition, both programs should be modified to explicitly require that they be utilized in rural areas.

RECAP OF LEGISLATION

Chairman Marble asked Jason Zamkus to provide a recap of the legislative activity related specifically to each of the credits. Mr. Zamkus offered the detail also found on the document posted on the TCRC website and distributed to Commissioners, titled *"Legislative Activity Following the 2010 Tax Credit Review Commission Report"*, pages 5-10. While many bills offered language from the 2010 recommendations and were introduced in both Chambers in both the regular 2011 session and the special session, none were passed by both Chambers and signed into law.

COMMENTS

Tony Stafford, MASBDA offered that the livestock industry supported the 2010 recommendations made for the ***Family Farm Breeding Livestock Program***. He offered that the 2014 sunset date for the ***Qualified Beef Tax Credit*** program due to the implementation timeline required by participating cattlemen to gain access to the program. And, he offered that the industry supported the recommendations made to the ***Ag Product Utilization/New Generation Cooperative Incentive***, except as it relates to the required use in rural Missouri.

Doyle Childers offered the industry was agreeable to the Commission recommendations regarding the ***Charcoal Producer's Tax Credit***.

There were no comments made on the ***Wine and Grape Production Tax Credit*** and the ***Alternative Fuel Stations Credit.***

The ***Wood Energy Credit*** carried the most discussion between participating Commissioners and Doyle Childers, participating on behalf of the charcoal and wood pellet industries.

Mr. Childers offered that the legislative recap should also reference a bill introduced in the General Assembly that capped the program at $4.5M with a 5-year sunset. The bill was introduced in the House and Senator Parsons handled the Senate version; however the legislation failed to pass.

COMMISSION DISCUSSION

Chairman Marble asked to determine the opinion of the Commissioners present regarding the update. Mike Wood recommended that the Committee reaffirm the 2010 report. Mr. Wood stated there were questions surrounding the 2010 recommendations of the Wood Energy credit but that it is scheduled to sunset in 2013.

Mr. Van Matre stated that he was not in favor of any changes to the 2010 report because of his opinion regarding the lack of multiplier effects and the stress on the state budget and the lack of a but/for provision in the program.

Mr. Childers responded to a request for information about the need for the continued existence of the program. Mr. Childers provided a brief history related to EPA and wood waste in Missouri. Mr. Childers pointed out that the charcoal producers and wood pellet producers in this state, who make use of the wood waste, are located in area of high unemployment.

Chairman Marble asked Mr. Childers if his argument was an economic one; is the value added industry threatened without the subsidy? Mr. Childers responded, yes.

Mr. Van Matre stated that Mr. Childers offered a compelling case about the area and the "but/for", but not about the pollution since it was applicable law. Mr. Van Matre asked Mr. Childers for an explanation about the use and beneficiaries of the credit.

Mr. Childers provided that as the wood waste builds up, it causes and environmental concern. He added, the "choke-point" of the viability of the industry is the cost of transportation from the mill to the value added manufacturer. The location of many of the charcoal and wood pellet producers requires longer haul transport.

Mr. Childers added that the credit either goes to the saw mill owner for hauling it to the value added manufacturer, or to the value added manufacturer if they pay for the hauling themselves. Mr. Childers stated without assistance for the transportation costs, the value added manufacturers would lose viability as those costs were unaffordable to them.

Mr. Wood asked when does the industry ever become self sufficient?

Mr. Childers responded that the credit subsidizes those areas that are farthest from their end-user. He stated that the jobs outweigh the subsidy and that the credit has been extended beyond its original sunset by the legislature. He added that the question of self sufficiency of the industry has not been a previous topic in relation to this credit.

Mr. Van Matre stated that the true economic subsidy is a lower cost product by the companies benefiting from the credit and not directed at the people working in the industry. He stated that the credit accrues to people who don't need it and if assistance is needed by the individuals working in the industry then the credit should be fashioned to help them directly.

Mr. Childers disagreed. He stated that the people in the region were hardworking and an important part of the economy of the region.

Mr. Van Matre agreed with Mr. Wood that self sufficiency in the industry needed to be achieved.

Chairman Marble thanked everyone for the good discussion and asked the final opinion of the members participating. Mr. Wood, Mr. Van Matre and Chairman Marble all agreed that the 2010 report should be reaffirmed as written.

Chairman Marble requested that DED prepare the notes of the discussion and disseminate them to the Committee and reschedule a meeting to determine consensus and submission of a final formal report to the Commission.